PUBLIC VERSION
(REDACTED)

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of	)	
Application by Verizon Maryland Inc., Verizon Washington D.C., Inc. Verizon West Virginia Inc., Bell Atlantic Communications, Inc. (d/b/a Verizon Long Distance), NYNEX Long Distance Company (d/b/a Verizon Enterprise Solutions), Verizon Global Networks Inc., and Verizon Select Services Inc. for Authorization To Provide In-Region, InterLATA Services in Maryland, Washington, D.C. and West Virginia	)	WC Docket No. 02-384

DECLARATION OF
MICHAEL R. BARANOWSKI
ON BEHALF OF AT&T CORP.

I. QUALIFICATIONS AND SUMMARY

1. My name is Michael R. Baranowski. I am a Managing Director of the Financial Consulting Division of FTI Consulting, Inc. My business address is 1201 Eye Street, NW, Suite 400, Washington, DC, 20005. In that position, I conduct economic and cost analysis for a variety of clients. Since 1996, I have been directly and continuously involved in interconnection agreement arbitrations and other network element rate proceedings before state public utility commissions. In that regard, I am intimately familiar with the cost models submitted by Verizon and other incumbent local exchange carriers. I am submitting this declaration at the request of AT&T Corp. ("AT&T").

2. The purpose of this declaration is to demonstrate that Verizon's UNE switching rates in West Virginia suffer from fundamental violations of TELRIC and thus are grossly overstated, and to show that Verizon's recent adopted and enforced UNE no-build policy is inconsistent with the policies and procedures assumed in setting Verizon's UNE prices in New York (Verizon's benchmark state for the three states at issue here) and upholding them in the New York 271 proceeding. This difference alone would cause the Verizon loop rates to fail the benchmark test. I also explain that the no-build policy is inconsistent with the cost study inputs and assumptions underlying Verizon's recurring loop rates and that correcting those inputs and assumptions to reflect properly Verizon's no-build policy would produce material reductions in loop rates.

II. UNE SWITCHING RATES IN WEST VIRGINIA VIOLATE TELRIC PRINCIPLES

3. Verizon's prices for unbundled switching usage in West Virginia suffer from basic TELRIC violations. First, the Verizon switch usage rates adopted by the West Virginia PSC are the sum of usage rates determined by the Hatfield Model *plus* a separate charge for vertical features based on Verizon's vertical feature add on cost study methodology. The PSC reached this solution because it was unconvinced that the Hatfield Model switch usage rates included costs for vertical features activations and thus allowed Verizon to add its feature costs to the Hatfield usage rates.[1] The Hatfield Model switch

[1] *See Bell Atlantic—West Virginia, Inc.—Petition to establish a proceeding to review the Statement of Generally Available Terms and Conditions offered by Bell Atlantic in accordance with Sections 251, 252 and 271 of the Telecommunications Act of 1996*, PSC of West Virginia Case Nos. 96-1516-T-PC *et al*., Commission Order on Arbitration (April 21, 1997), at 50-51, 55-56.

costs, however, were based on historical (publicly available) switch purchase data and thus include the costs for complete switches (including vertical features). Adding a separate charge for vertical features produces a double recovery of those costs.

4. The FCC itself, in its development of the Synthesis Model, recognized that the switching rates produced by the Hatfield Model include costs for all of the features and functionalities of the switch as required by the First Report and Order. Indeed, the FCC adopted the Hatfield Model switching module as the starting point for the development of switching costs in the Synthesis Model and, in its Tenth Report and Order, acknowledged that costs for vertical features – while not necessary for the provisioning of basic services for Universal Service Funding – could not be separately identified as an investment variable and thus could not be removed from switching investment.[2]

5. The impact of this double recovery is very large: features charges represent over 59 percent of the total combined rate element for terminating usage and features combined, and nearly *84 percent* of the total combined rate element for originating usage and features combined:[3]

[2] FCC Tenth Report and Order, ¶ 318.

[3] Verizon did not include with its 271 application the cost study details supporting its buildup of switch usage rates. The split of switch usage rates between the Hatfield based usage component and Verizon based vertical features is derived from materials provided by Verizon in the West Virginia UNE proceeding. AT&T has asked Verizon to produce the cost studies supporting the West Virginia switching rates in Verizon's SGAT and will modify its calculations, if necessary, once those materials are received from Verizon.

	Originating	Terminating
Combined Rate:	$0.013897	$0.005653

[BEGIN VERIZON PROPRIETARY]

Features:

Usage:

% Features:

[END VERIZON PROPRIETARY]

6. Further, even if such a hybrid methodology were appropriate – which it is not – Verizon's development of vertical feature cost uses a switch discount weighted entirely on the lesser discount available on the purchases of growth equipment instead of the steeper forward-looking discounts available for replacement switch purchases. This assumption is directly at odds with the switch cost assumptions underlying the usage component of the switch rate from that Hatfield Model which, because they are based on historical purchases of new switches, implicitly incorporate the discount level attributable to new switch purchases. Such a mismatch of discount levels within a single UNE switch usage rate is a clear violation of TELRIC principles. Correcting the West Virginia switch usage rate to reflect only the steeper discounts available on replacement equipment purchases would reduce switch rates and the amount of the over-recovery substantially.

Originating Terminating

[BEGIN VERIZON PROPRIETARY]

Restated Combined Rate:

Features w/ Correct Discount:

Usage:

% Features:

% Reduction in Combined Rate:

[END VERIZON PROPRIETARY]

III. VERIZON'S NO-BUILD POLICY IS INCONSISTENT WITH POLICIES IN OTHER STATES UPON WHICH THE FCC'S BENCHMARK TEST IS BASED.

7. A necessary precondition for a meaningful benchmark comparison is that the services whose rates are compared must cover comparable facilities or services. Verizon's "no build" provisioning policy renders such a comparison impossible because a "loop" in a Verizon service area where the policy is implemented is clearly a less costly and value input than a corresponding "loop" in a Verizon service area where the policy is not in effect. When the New York Public Service Commission set its rates for a "loop" in New York, and later when the Commission began using New York's rates as the benchmark rates, the purchase of a "loop" by a CLEC was thought to include the implicit option of buying additional loops at the same price per unit of capacity. While this

assumption may have been true at that time based upon whatever Verizon's previous loop provisioning policy may have been, it is clearly not true today in Maryland, West Virginia, and the District of Columbia, where the "no build" policy is unabashedly in place.

8. The option of supplying additional loops on demand has both a cost to Verizon (i.e., the carrying cost of the spare capacity, measured by fill factors, needed to make the availability of additional loops a meaningful one) and a value to CLECs. If these factors are taken out of the equation, then the product that is left is completely different than the one with which the equation began. There is nothing in the record of the New York decisions that suggests that the New York Public Services Commission was aware of the "no build" policy when it issued its rulings to which the benchmarking standards are now inextricably tied. Rather, the New York Public Service Commission believed that Verizon was supplying additional loops reasonably on demand. Thus, a simplistic benchmark comparison of loop prices in Maryland, West Virginia, and the District of Columbia with loop prices in New York is as illegitimate as the conclusion that a stripped down entry-level automobile is reasonably priced because it is offered for sale at the same price as a fully loaded model from the same manufacturer.

IV. VERIZON'S NO-BUILD POLICY IS INCONSISTENT WITH THE COST STUDY INPUTS AND ASSUMPTIONS UNDERLYING LOOP RATES IN MARYLAND, DISTRICT OF COLUMBIA AND WEST VIRGINIA.

9. In a September 6, 2002 letter to the Virginia State Corporation Commission, Verizon explains that under the Telecommunications Act of 1996 it is not required to extend, augment, or otherwise reconfigure its network to provide facilities to

CLEC's where facilities are unavailable. Verizon has not provided any information in its 271 application in this proceeding suggesting that it does not intend to enforce the same policy in Maryland, District of Columbia and West Virginia. Such a position is directly at odds with the cost study inputs and assumptions underlying the UNE loop rates in place in each of these three states today in at least three respects. Correcting the cost study inputs and assumptions to reflect Verizon's no-build policy would result in a substantial reduction in UNE loop rates.

10. First, contrary to its no-build policy, Verizon's cost studies explicitly provide for investment in new facilities where such facilities were not constructed in the base year. The Verizon cost studies from which the current UNE loop rates are derived in Maryland use the CAPCOST Plus model to develop annual cost factors ("ACF") to convert forward-looking investments to recurring annual charges. The CAPCOST Plus model, based on a series of study inputs, computes annual factors for return of investment (depreciation), return on investment, income taxes, direct operating expenses, support expenses, property taxes and other expenses. For the calculation of return of investment, return on investment and income taxes, the CAPCOST Plus model is run for ten vintages. Each vintage, in the CAPCOST Plus parlance, represents a study year. For each vintage, the CAPCOST Plus model provides for incremental investment to serve the increase in demand input to the model for that year. Over ten vintages, Verizon's cost study provides for an additional forward-looking investment to accommodate anticipated increased demand after the first year. Under Verizon's no-build policy, this additional investment

would have to be removed from the cost study in order to make the cost study assumptions consistent with the policy.

11. Second, the fill factors within Verizon's cost studies for Maryland and District of Columbia and the Hatfield Model used to develop loop costs in West Virginia provide for substantial amount of spare capacity to account for future increased demand, customer churn, administrative spare requirements and defective pairs. The loop cost studies include a percent fill for metallic distribution cable, which effectively provides for approximately one spare distribution pair for every working distribution pair included in the studies. The studies also provide for large amounts of spare capacity for metallic feeder cable, digital loop carrier electronics investment and fiber feeder cable.

12. Under Verizon's no-build policy, there would be no need to provide for spare capacity in the network to provision for future anticipated growth or for customer churn. Thus the fill factor for all loop components would only be required to account for administrative spare requirements and defective pairs. A network wide fill factor of 90 percent for all outside plant components would provide adequate capacity for administrative spare and defective pairs.

13. Third, both the Verizon cost study and Hatfield Model ACF's explicitly provide for both repair expenses (R-dollars) and maintenance and rearrangement dollars (M-dollars). R-dollars generally include expenditures covering the restoration of telephone plant to proper working conditions as the result of damage or a defective condition and should be included in the cost studies, even under Verizon's no-build

policy. Rearrangements and changes, or M-dollars, typically include telephone plant operating expenses which are not repair expenses and include the physical movement of telephone plant or the rearrangement or re-configuration of telephone plant. Clearly inclusion of expenditures for any rearrangement of outside plant is inconsistent with Verizon's no-build policy and any such costs should be removed from the study.

14. Adjusting Verizon's loop cost study to eliminate those cost components that are in conflict with its no-build policy would produce a considerable reduction in loop costs. For example, adjusting the CAPCOST Plus model to run only a single vintage, thereby removing any provision for incremental investment to serve future demand, changing the utilization factors to 90 percent to provide for only administrative spare and defective pairs and removing the M-dollars from the ACF calculations would reduce substantially the statewide average two-wire loop rates in both Maryland and the District of Columbia. Four-wire loop rates and DS1 loop rates would also decline considerably if these adjustments were implemented in those cost studies.

V. CONCLUSION

15. For the foregoing reasons, Verizon's no-build policy is inconsistent with the inputs and assumptions of the underlying cost studies. Correcting for these inconsistencies would result in a substantial reduction in loop rates.

VERIFICATION PAGE

I declare under penalty of perjury that the foregoing Declaration is true and correct.

/s/ Michael R. Baranowski

Michael R. Baranowski

Executed on: January 9, 2003